WASHINGTON NOTES

WORK OF THE FEDERAL RESERVE BOARD

Sufficient advance has now been made with the work of the Federal Reserve Board to permit the definite summing-up of the work it has accomplished during the past two months. Practically, since its formal establishment on August 12, its labors may be divided into three general sections. The first work to be undertaken was that of preparing amendments to the Federal Reserve Act, it being felt that in view of the changed conditions due to the European war and the financial problems arising in the United States subsequent thereto, some changes in the act might make it easier of application. A draft of these amendments, prepared and submitted to the committees of Congress, included a request for an inclusion of federal reserve notes in the reserves of the member banks, power on the part of the Federal Reserve Board to permit the member banks to carry the bulk of their reserves in the vaults of the reserve bank of their district, and a few changes of less importance. Congress showed comparatively little disposition to act favorably upon any of the amendments, and conditions finally developed in such a way as practically to preclude the possibility of their being adopted, as recommended, at the recent session. This outcome is largely due to the fact that an insurgent group in Congress determined to attach to any legislation that might be offered an amendment providing for the granting of relief to the cotton-producers of the South and the issue of Treasury notes, thus practically preventing the consideration of amendments to banking legislation in any direction. Even under the most favorable conditions it was, in the opinion of the more experienced members of Congress, impossible that any except the least important of the proposed amendments could be adopted.

The second phase of the Board's work during the early period of its existence is found in the final selection and announcement of the Class C directors of the several banks, a task which was completed on October 8, the thirty-six men chosen being named in the table on p. 902.

The third phase of the Board's work has consisted in the preparation and transmission to the boards of directors of the various banks of instructions, tentative by-laws, and the like for consideration by the boards, and in the holding of a convention in Washington, October 20, 21, 22, in which were considered the problems with reference to the establishment of the new banks. This convention was divided into eight committees after the first formal session at which all delegates were

present. The eight committees included one on by-laws and legal questions; a second on domestic exchange and transit and clearing problems; a third on internal organization; a fourth on commercial paper and allied matters; a fifth on the duties of federal reserve agents; a sixth on the use of mechanical devices by federal reserve banks; a seventh on the bonding of employees; and an eighth on accounting

District	Federal Reserve Agent	Deputy Federal Reserve Agent	Director
1. Boston	Frederic H. Curtiss, Boston, Mass.	Walter S. Hackney, Providence, R.I.	Allen Hollis, Concord, N.H.
2. New York	Pierre Jay, New York City	Charles Starek, New York City	George F. Peabody, Lake George, N.Y.
3. Philadelphia	Richard L. Austin, Philadelphia, Pa.	George M. La-Monte, Bound Brook, N.J.	George W. Norris, Philadelphia, Pa.
4. Cleveland	D. C. Wills, Bellevue, Pa.	Lyman H. Treadway, Cleveland, Ohio	H. P. Wolfe, Columbus, Ohio
5. Richmond	William Ingle, Baltimore, Md.	James A. Moncure, Richmond, Va.	M. F. H. Gouverneur, Wilmington, N.C.
6. Atlanta	M. B. Wellborn, Anniston, Ala.	Edward T. Brown, Atlanta, Ga.	W. H. Kettig, Birmingham, Ala.
7. Chicago	C. H. Bosworth, Chicago, Ill.	W. L. McLallen, Columbia City, Ind.	Edwin T. Meredith, Des Moines, Ia.
8. St. Louis	Wm. McC. Martin, St. Louis, Mo.	Walter W. Smith, St. Louis, Mo.	John Boehne, Evansville, Ind.
9. Minneapolis	John F. Rich, Red Wing, Minn.	P. M. Kerst, St. Paul Minn.	John W. Black, Houghton, Mich.
10. Kansas City	J. Z. Miller, Kansas City, Mo.	A. E. Ramsey, Muskogee, Okla.	R. H. Malone, Denver, Colo.
11. Dallas	E. O. Tennison, Dallas, Tex.	W. F. McCaleb, San Antonio, Tex.	Felix Martinez, El Paso, Tex.
12. San Francisco	John Perrin, Pasadena, Cal.	Claude Gatch, San Francisco, Cal.	Charles E. Peabody Seattle, Wash.

and statistics. The committees, having devoted a day or two of attention to the matters intrusted to their charge, and having in most cases been previously provided with preliminary matter upon which to work, were able to report to the convention definite proposals. The committee on accounting recommended a complete scheme of accounting that had been developed by a preliminary committee which had gone over the whole subject during the preceding winter and spring; the committee on federal reserve agents' duties followed substantially the lines marked out in a report which had been previously prepared for the

Federal Reserve Board by members of that organization; and the minor subjects were disposed of according to circumstances. Perhaps the most interesting general step taken was that of creating a so-called council of governors to consist of the governors of the several reserve banks. This body, not provided for in the Federal Reserve Act, will probably be paralleled by a similar council of federal reserve agents, but in any case it will be called into service as an aid to the Board in its executive work of managing the federal reserve system. To it were at once referred certain questions left open by the committees of the directors' convention or by the convention itself, such as that of supplying the banks with mechanical devices, that of determining some of the matters regarding the date of opening, and others of like nature. The convention itself took important action by indorsing November 30 as the date before which each of the proposed banks ought to be established and placed in working order. Taken as a whole, the convention furnished an excellent index to the state of feeling regarding the whole federal reserve system, since, although there had been a call for only three delegates from each bank, there were present in all about ninety persons out of a total of 120 (nine directors and one governor for each bank being the full number that might conceivably have attended the gathering).

THE GOLD FUND

An important financial undertaking carried out by the national government through the Reserve Board, and, therefore, in a sense, a phase of the Board's work (although not properly thus to be included, inasmuch as the transaction was of an exceptional sort), is seen in the arrangements for a "gold fund" to be subscribed by the banks of the country, and to be used in meeting foreign obligations. This fund was described in a letter sent out by the Board to the presidents of clearing-house associations, as follows:

At the invitation of the Secretary of the Treasury and the Federal Reserve Board, a conference of delegates from clearing-house associations was held at the Treasury Department in Washington on September 4 for the purpose of considering problems growing out of the extraordinary derangement of our foreign exchange markets following the outbreak of the European war. This conference, after a day's deliberation, appointed a bankers' committee charged with the duty of recommending to the Board a plan for dealing with this situation. The committee so named submitted on September 4 its first report, which advised the creation of a gold fund of $150,000,000. This recommendation, owing to changes in the situation, was modified in a subsequent report,

dated September 19, favoring the creation of a gold fund of $100,000,000 to be contributed by the banks and trust companies located in central reserve and reserve cities.

The Board has carefully considered the committee's report, and concurs in its conclusions and recommendations. The Board is convinced of the necessity of an adequate plan of national co-operation to meet a situation which is of national dimensions, and it has no hesitation, therefore, in giving its approval to the plan proposed by the committee, and recommends your earnest co-operation.

The Board shares the committee's belief that the creation of a large gold fund at this juncture will have a far-reaching effect for good, and will prove an effective factor in restoring confidence, in bringing relief, in protecting and strengthening the country's credit, and in facilitating the exportation of our products.

The Board, therefore, recommends that your association appoint a committee to secure from the national banks and state banking institutions of your city subscriptions aggregating $———— to the proposed gold fund. The Board regards this amount as the fair quota to be raised in your city, based upon the holdings of gold and gold certificates by the central reserve and reserve cities as recently ascertained. The allotments provide a fair margin above the total amount named. Any sums pledged in excess of $100,000,000 will be applied to a pro rata reduction of all subscriptions to the fund.

Forms of subscriptions and certified resolutions to be executed by participating institutions have been prepared by the bankers' committee and are forwarded herewith. This Board recommends that the sums specified be pledged as promptly as possible and that you send the pledges and resolutions, duly executed, to the secretary of the Federal Reserve Board at Washington, D.C., in order that they may be available for the committee not later than October 1.

For the terms and conditions upon which the subscriptions to the proposed gold fund are made your attention is particularly called to the report and plan signed by the bankers' committee and handed to you herewith.

The object of the plan is thus made clear—its purpose was to secure the subscription and transmission to New York of at least $100,000,000 in gold or the equivalent thereof, this sum of money to be placed as needed in the hands of representatives of the Bank of England, and to be used as a basis on which to draw in liquidating debts to Great Britain.

The proposal was completely successful, $105,000,000 being subscribed by October 15, while long before that date the first payment had been made, in view of the evident certainty that the fund would be filled to the point that was deemed necessary to the successful realization of its purposes. Operations have begun under the new plan, quantities of

gold being shipped to Ottawa, Canada, and there deposited in a branch of the Bank of England as a basis for payment of drafts sold to persons in the United States who are obliged to meet maturing obligations in London.

A COTTON RELIEF PLAN

Another similar operation undertaken at the instance of a large and important section of the community is seen in the so-called cotton loan fund. The circumstances leading up to this fund were as follows: At the beginning of the war the cotton-planters of the southern states were on the point of harvesting a crop larger than any of recent years and variously estimated at from 15,000,000 to 18,000,000 bales. A large part of this crop would, in the ordinary course, have moved rapidly abroad and thereby have served to liquidate international indebtedness as usual. When the war came on, cotton exchanges were closed all over the world, while cotton mills either closed or else, influenced by the extraordinary fluctuations in the price of cotton which were at once manifested, they ceased to buy cotton except from hand to mouth. The southern planter was thus unable to market his crop except at a most unfavorable price which would not have repaid him the cost of production. As a result, he was in danger of being unable to retain any interest in the crop, since the operations of planting, cultivating, and harvesting are largely carried on upon credit—the local merchant advancing the supplies needed by tenant farmers and then selling the output, giving credit on the books of the local "store" to the planter for the balance due him. There was consequently an immediate outcry for government aid in the carrying of the crop; some suggested that a large bond issue should be put out, and others that an equally large issue of treasury notes be deposited in banks, the proceeds in either case to be loaned directly to cotton-growers. Neither plan was favorably regarded by the government at Washington, and private persons at length undertook to secure the subscription by the banks of a fund to be used as a loan fund for sustaining the cotton market. The scheme passed through various modifications and at last took form as a proposal for the subscription of $135,000,000 (approximately), this sum to be in the hands of the members of the Federal Reserve Board acting in their individual capacities, in the form of pledges from banks, corporations, and individuals. These pledges were to be of two sorts, those offered from outside the cotton-growing states by individuals and institutions who had funds to invest, and those given by banks in the cotton states who were already holders of cotton paper or were about to

become such, and who wished to make application for further cash to be used in additional cotton loans. The plan was, therefore, regarded as a means of affording about $100,000,000 in liquid resources to banks in the cotton states for use in cotton loans, under numerous safeguards. This relief plan is still in process of application and represents the second of the financial undertakings which were assumed by the Board, either in its official capacity or acting through the individual capacities of its members. It is, therefore, in a sense to be reckoned as a feature of the work of the Board as an institution.

THE NEW ANTI-TRUST ACT

The final action of Congress and the President has put into effect on October 15, 1914, the new "Federal Anti-Trust Act (Public Document No. 212, 63d Congress). This act as finally adopted consists of twenty-six sections, the essential provisions being found in Sections 2, 3, 4, 6, 8, 10, 11, and 12. "Commerce" is defined as trade or commerce among the several states and with foreign nations, or between the states or states and territories, generally, but the Philippine Islands are exempted from the provisions of the act. It is made unlawful for persons engaged in commerce to make any discrimination in price between different purchases of commodities sold for use within the United States or any territory, "where the effect of such discrimination may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

One of the most interesting provisions in the law is found in Section 3:

> That it shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandize, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States or any territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandize, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

Scarcely less important is the exemption contained in Section 6, which provides that the labor of a human being is not to be considered

a commodity or article of commerce, and that nothing contained in the anti-trust laws shall be construed to forbid the existence of labor organizations or to forbid the individual members of such organizations from lawfully carrying out the legitimate objects thereof. This is the provision for which the labor element has so long striven, and, vague as it is, they regard it as a great victory. A provision of the law likely to affect the banks of the country in an important way is that contained in Section 8, where it is specified that no person shall be at the same time a director or officer or employee of more than one bank, either of which has deposits, capital, surplus, and undivided profits aggregating more than $5,000,000. This is intended to terminate the so-called "interlocking-directorate evil." The act makes important changes in the existing legal mechanism for the enforcing of the anti-trust laws and under its terms there will be considerable and perhaps unavoidable innovations upon present methods of procedure. The most striking of these latter changes is that provided in Section 20, which reads as follows:

> That no restraining order or injunction shall be granted by any court of the United States, or a judge or the judges thereof, in any case between an employer and employees, or between employers and employees, or between employees, or between persons employed and persons seeking employment, involving, or growing out of, a dispute concerning terms or conditions of employment, unless necessary to prevent irreparable injury to property, or to a property right, of the party making the application, for which injury there is no adequate remedy at law, and such property or property right must be described with particularity in the application, which must be in writing and sworn to by the applicant or by his agent or attorney.

WAR REVENUE TAX

On October 22 President Wilson signed the war revenue act which originated as H.R. 18,891 and has been passing through the various legislative stages on its way to the statute books. The act is entitled "An act to increase the internal revenue and for other purposes." It is in effect a renewal of the Spanish War revenue act and it is estimated that it will raise about $90,000,000. The new measure differs somewhat from the Spanish War act, in that it imposes taxes upon a few items that were not included in the former measure, while it withholds taxes upon several objects of taxation that were formerly included. But in the main, the two acts are closely similar. The reason for this "war" act is that, since the outbreak of the European war, there has been a very

marked falling-off in customs duties, owing to the fact that European countries were in no position to produce and ship goods, while on the other hand they ceased buying many American staples, among them cotton, so that the United States was suddenly deprived of the means of meeting its trade balance heretofore liquidated every autumn by heavy shipments of these articles. The almost complete collapse of the tariff as a revenue-producer was somewhat retarded by the fact that there were large quantities of goods in bonded warehouses which were gradually withdrawn and presented for the payment of duties, but this resource gradually faded out, and before the tariff revenues could reconstitute themselves in the natural course, it was found that the receipts of the Treasury were in a very much reduced state. This was exceptionally important because the Treasury relies largely upon customs payments for the gold with which it supplies the means for the redemption of greenbacks. The revenue question thus involved not only the matter of solvency on the part of the government but also that of the redeemability of the paper currency of the nation. The new war revenue act, as adopted, provides for a duty of $1.50 per barrel on beer in place of the former tax of $1, while wines, champagne, and other similar products were given much higher rates than those which have prevailed. Bankers are taxed in proportion to their capitalization, brokers at a fixed rate per annum, commercial and custom house brokers upon a similar fixed schedule, proprietors of theaters and other places of amusement upon a basis adjusted to receipts, tobacco dealers upon the volume of their annual sales, and manufacturers of tobacco upon a sliding scale based upon output. Adhesive stamps are to be used in the collection of stamp taxes levied upon bonds, debentures, legal instruments, certificates of indebtedness, and other evidences of ownership of wealth in the form of instruments indicating the existence of debts. The act has been strongly resisted on the ground that, if the party now in control of the government were willing, it could save the amount of the sums to be raised by economies in administrative expenses. In consequence of such statements, reductions have been made in the river and harbor bill which was pending at the time of the outbreak of the war, as well as in other measures so far as was possible, while additional economies have been announced. The fact remains that federal expenses are at an extraordinarily high figure and show no signs of reduction—a condition which will apparently result in laying the party responsible for the so-called war revenue tax open to the charge that it has increased taxation without being subjected to any actual necessity for so doing.

NUMBER OF INCOME TAX RETURNS

The following table, prepared by the Treasury Department, shows the total number of income tax returns filed during the fiscal year of 1914, classified according to the amount of net income shown on the returns:

Classification		No. Returns
$ 2,500.00 to $ 3,333.33		79,426
3,333.33 to 5,000.00		114,484
5,000.00 to 10,000.00		101,718
10,000.00 to 15,000.00		26,818
15,000.00 to 20,000.00		11,977
20,000.00 to 25,000.00		6,817
25,000.00 to 30,000.00		4,164
30,000.00 to 40,000.00		4,553
40,000.00 to 50,000.00		2,427
50,000.00 to 75,000.00		2,618
75,000.00 to 100,000.00		998
100,000.00 to 150,000.00		785
150,000.00 to 200,000.00		311
200,000.00 to 250,000.00		145
250,000.00 to 300,000.00		94
300,000.00 to 400,000.00		84
400,000.00 to 500,000.00		44
500,000.00 to 1,000,000.00		91
1,000,000.00 and over		44
Total		357,598
Married	278,835	
Single		
Men	55,212	
Women	23,551	357,598
Married women rendering separate returns included above		6,682

These returns for the first year of the operation of the new income tax law cover income for the ten months from March 1 to December 31, 1913.